Connecting Ideas

Annual report
2006/07

Annual report 2006/07

Content

Company name:	**SAF Tehnika, JSC**
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Latvian Commercial Registry No:	LV40003474109
Financial Year:	July 1st, 2006 – June 30th, 2007

Riga, 2007

Every small
thing is an
important part
of the universe

SAF Tehnika in Brief

Mission Statement

SAF Tehnika mission is to provide high quality, affordable microwave radio solutions for data and voice connectivity around the World.

Strategy

Group 's Strategic aim is to expand geographically relying on strong local partners offering high service level and rapid modification of products to local user preferences supported by flexible production process.

Business Goals

The goal of the Group is to be among the Top 7 largest microwave radio manufacturers during next 2 years.

SAF Tehnika AS is a designer, producer and distributor of digital microwave data transmission equipment. SAF Tehnika products provide wireless backhaul solutions for digital voice and data transmission to mobile and fixed network operators, data service providers, governments and private companies.

The Group offers two product lines: CFM family - low to medium capacity radio equipment (PDH) and CFQ family – high capacity radio equipment (SDH).

The Group provides an important part of the telecommunications infrastructure to customers in more than 60 countries worldwide. SAF Tehnika attributes this success to three key factors: a distinctive approach to research and development, flexibility and the ability to deliver high-value solutions at attractive prices.

BSNL, MTNL (India), PCTL (Pakistan), Vimpelcom, Tele2, Golden Telecom (Russia), Intertelecom (Ukraine), Impsat (Latin America) are among the mobile operators who have chosen SAF Tehnika to supply high-reliability wireless backhaul solutions in their networks.

SAF Tehnika has grown to be an acknowledged member of the industry. The Group's determined focus, strong technology resources and quality products allow it to compete successfully in its market segment with the largest integrated vendors - Ericsson, Nokia Siemens Networks and NEC. Today the Group ranks among the top independent, non-captive radio link suppliers.

The Group's growth occurred during difficult market conditions in the telecommunications industry. The dramatic reduction of capital expenditures in the wireless data transmission sector after 2001 adversely affected many other vendors in the industry. However, during this time, when the overall market was contracting, the Group expanded its product range by introducing new products and improved R&D (research and development) capacity.

To strengthen the product portfolio, in 2004 SAF Tehnika acquired a Swedish Group, Viking Microwave AB - SAF Tehnika Sweden, a fully owned subsidiary, based in Gothenburg. Today, this division contributes R&D resources to SDH

SAF Tehnika in Brief

product line development. These additional product development resources enable the Group to deliver high-value solutions to customers at compelling price points.

SAF Tehnika has gained the confidence and trust not only of customers, but also the financial community. In May 2004 the Group launched a successful IPO with the initial market capitalization of more than 50 million, with substantial subscriptions from institutional investors. The Group is listed on the Riga Stock Exchange (OMX Group) under the symbol SAF1R and the current quotation is accessible on the Group's web page www.saftehnika.com/shareholders.jsp

In 2007, SAF Tehnika penetrated 12 new markets, bringing the total number of active markets to 62. The Group continues to grow internationally by penetrating new geographic markets in both developed and developing countries, especially the fast-growing Asia-Pacific region and Latin America.

Growing and profitable, SAF Tehnika is relied upon as an expert in microwave data transmission. When there is a requirement for wireless data backhaul solutions for current and emerging opportunities in 3G mobile networks, broadband wireless and converged voice/data networks, customers worldwide look to SAF Tehnika to make the connection.

Key Company Milestones

1999	Group foundation (10 employees);
2000	Introduction of PDH (CFM) product line;
2003	ISO 9001 certification;
	SAF - Full voting member of ETSI;
2004	Acquisition of Viking Microwave AB, Sweden – SAF Tehnika Sweden AB foundation;
	IPO - Initial Public Offering;
2006	SDH (CFQ) product line launch in the market;
	Number of SAF Tehnika employees reaches 160;
2007	Sales growth up to 60 markets;
	Implementation of a new automated modern manufacturing line;
	Beginning of the project - development of Super PDH product line.

www.saftehnika.com

SAF Tehnika Management Board

Normunds Bergs
Chairman
owns 9.74%
of shares

Normunds Bergs, born in 1963, is Chairman of the Board and Chief Executive Officer of SAF Tehnika AS. Mr. Bergs is one of the founders of SIA Fortech (co-founding SAF Tehnika AS) where during the periods from 1990 to 1992 and 1999 to 2000 he acted as Managing Director and General Director, respectively. Following SIA Fortech's merger with AS Microlink in 2000, Mr. Bergs became Chief Executive Officer of SAF Tehnika AS and Member of the Management Board of AS Microlink. From 1992 to 1999 Mr. Bergs worked at World Trade Center Riga, where he held the position of General Director and became Member of the Board of Directors in 1998. Mr. Bergs has graduated Riga Technical University with a degree in radio engineering in 1986. Since 1998, he has been working as a lecturer at Riga Business School.

Didzis Liepkalns
Vice Chairman
owns 17.05%
of shares

Didzis Liepkalns, born in 1962, is Vice-Chairman of the Board and Technical Director of SAF Tehnika AS. Mr. Liepkalns founded a private enterprise SAF in 1995 and co-founded the company SAF Tehnika AS in 1999. From 1985 to 1990 he worked as an engineer at the Institute of Electronic Engineering and Computer Sciences. Mr. Liepkalns has graduated Riga Technical University with a degree in radio engineering in 1985.

Aleksis Orlovs
Member till
October 31, 2007

Aleksis Orlovs, born in 1974, Member of the Board and Chief Financial Officer of SAF Tehnika AS till October 31, 2007. Prior to joining the Company in 2004, he served as Chief Executive Officer at AS MicroLink ServIT from 2001 to 2003. From 2000 to 2001 Mr. Orlovs held the positions of Chief Executive Officer and Chairman of the Board of Delfi AS. From 1998 to 2000 he was the Chief Executive Officer of AS MicroLink Datori. Mr. Orlovs holds Master of Business Administration degree (MBA) - Riga Business School, 2004, as well as Master of Science degree in International Business and Law (2000) and Bachelor degree in Economics - University of Latvia (1998).

Aira Loite
Member from
November 1, 2007

Aira Loite, born in 1965, Member of the Board and Chief Financial Officer of SAF Tehnika AS from November 1, 2007. Prior to joining the company in November, 2007, she worked for SIA Lattelecom (2006/2007) initially as a Business performance Director and later as a Director of Business Information and Control division. From 2000 till 2006 she held the position of the Head of Finances and Administration of SIA Microlink Latvia beeing Board member as well. From 2004 till 2005 she was Chief Financial Officer of Microlink Group. A. Loite has graduated University of Latvia with a degree in applied mathematics in 1988. Currently she is studying in a Master of Business Administration program (Salford MBA) in Riga International School of Economics and Business.

Janis Ennitis
Member

Janis Ennitis, born in 1970, is Member of the Board and he holds the position of Vice-President Sales and Marketing in the Company. Prior to joining the Company in July 2006, Janis Ennitis was employed by information technology and electronics distribution company GNT Latvia (now ALSO) as Sales and Marketing Director. Mr. Ennitis holds a Master degree of Microelectronics from Riga Technical University which he graduated in 1996. Post graduate studies during 1996/1997 were held at the Technical University of Lausanne in Switzerland.

SAF Tehnika Supervisory Board

Vents Lacars
Chairman
owns 6.08%
of shares

Vents Lacars, born in 1968, is Chairman of the Supervisory Council and Vice-President Business Development of SAF Tehnika AS. Before co-founding the Company, from 1992 to 1999, he worked in SIA Fortech, where throughout his career he held positions of programmer, lead programmer, project manager in the networking department and networking department manager. From 1990 to 1992 Mr. Lacars worked as a programmer at state electric utility company Latvenergo. Mr. Lacars has graduated from the University of Latvia with a degree in physics and mathematics in 1994.

Juris Ziema
Vice-Chairman
owns 8.71%
of shares

Juris Ziema, born in 1964, co-founder of the Company, is Vice-Chairman of the Supervisory Council and Production Department Director. From 1998 to 1999 he worked as an engineer at Didzis Liepkalns private enterprise SAF. From 1987 to 1999 Mr. Ziema worked as an engineer at the Institute of Electronic Engineering and Computer Sciences.
Mr. Ziema has graduated Riga Technical University with a degree in radio engineering in 1987.

Andrejs Grisans
Member
owns 10.03%
of shares

Andrejs Grisans, born in 1957, is Member of the Supervisory Council and Production Department Manager. Mr. Grisans has 20 years of experience in electronics and is one of the co-founders of SAF Tehnika AS. Prior to joining the Company, he owned and managed a private company specializing in electronic equipment engineering, production and distribution. From 1992 to 1999 Mr. Grisans was involved in entrepreneurial activities in the field of radio engineering. He worked as an engineer-constructor at the Institute of Polymer Mechanics from 1984 to 1992 and in the constructing bureau "Orbita" from 1980 to 1984. Mr. Grisans has graduated Riga Technical University with a degree in radio engineering in 1980.

Ivars Senbergs
Member

Ivars Senbergs, born in 1962, Member of the Supervisory Council, also Member of the Board of SIA Juridiskais Audits, Member of the Supervisory Board of AS "MFS bookkeeping" and Chairman of the Board of SIA Namipasumu parvalde from November 2004. From 1999 until 2000 he worked as Finance and Administrative Director at SIA Fortech. Mr. Senbergs has graduated Faculty of Law, University of Latvia.

Janis Bergs
Member

Janis Bergs, born in 1970, Member of the Supervisory Council, also Chairman of the Management Board of SIA FMS. Former Chairman of the Management Board of SIA Fortech, later Member of the Management Board of Mirolink Group. In 2004 elected as Chairman of the Management Board of Mirolink Group. In 2004 J.Bergs was elected in the Management Board of the Latvian Information Technology and Telecommunications Association.
J. Bergs has graduated Riga Technical University with a degree in radio engineering in 1993.
In 2000 he graduated from Riga Business School with an MBA degree.

Interest of members of management and supervisory board members in other companies

Normunds Bergs

Member of the Management Board of SIA „Namīpašumu pārvalde”,
owns 40,00% of share
Shareholder of SIA „CityCredit”,
owns 99,97% of share
Shareholder of SIA „Real Sound Lab”,
owns 10,00% of share
Shareholder of SIA „FMS”,
owns 27,50% of share
Shareholder of SIA ”P3B Holdings”,
owns 18,00% of share
Shareholder of SIA „FMS Group”,
owns 27,50% of share
Shareholder of SIA „Enerģijas centrs”,
owns 25,00% of share

Janis Ennitis

Shareholder of SIA „Pakards”,
owns 33,33% of share
Shareholder of SIA „Auto Mikss”,
owns 25,00% of share

Vents Lacars

Member of the Management Board of SIA „Details”,
owns 20,00% of share

Ivars Senbergs

Chairman of the Management Board of SIA “Juridiskais Audits”,
owns 58,62% of share
Chairman of the Management Board of SIA “Namīpašumu pārvalde”,
owns 30,00% of share
Chairman of the Management Board of SIA ”Latnek Īpašumi”,
owns 60,00% of share
Member of the Management Board of SIA ”Hipno”,
owns 3,00% of share
Shareholder of SIA ”Forums Cafe and Restaurant”,
owns 8,07% of share
Shareholder of SIA “Arhitekta K. Rukuta Birojs”,
owns 5,12% of share
Shareholder of SIA ”Namservisa Agentura”,
owns 33,30% of share

Janis Bergs

Chairman of the Management Board of SIA “FMS Group”, owns 27,50% of share
Chairman of the Management Board of SIA “FMS”, owns 27,50% of share
Shareholder of SIA ”P3B Holdings”, owns 18,00% of share
Shareholder of SIA “Enerģijas centrs”, owns 25,00% of share

Everything reincarnates either in its form, structure or contents

Type of activity

SAF Tehnika (hereinafter – the Group) is a designer, producer and distributor of microwave digital radio data transmission equipment used mainly by telecommunications operators to provide voice and data transmission as an alternative to cable channels.

The company offers approximately 200 products comprising solutions for mobile network operators, data service providers (such as Internet service providers and telecommunications companies), as

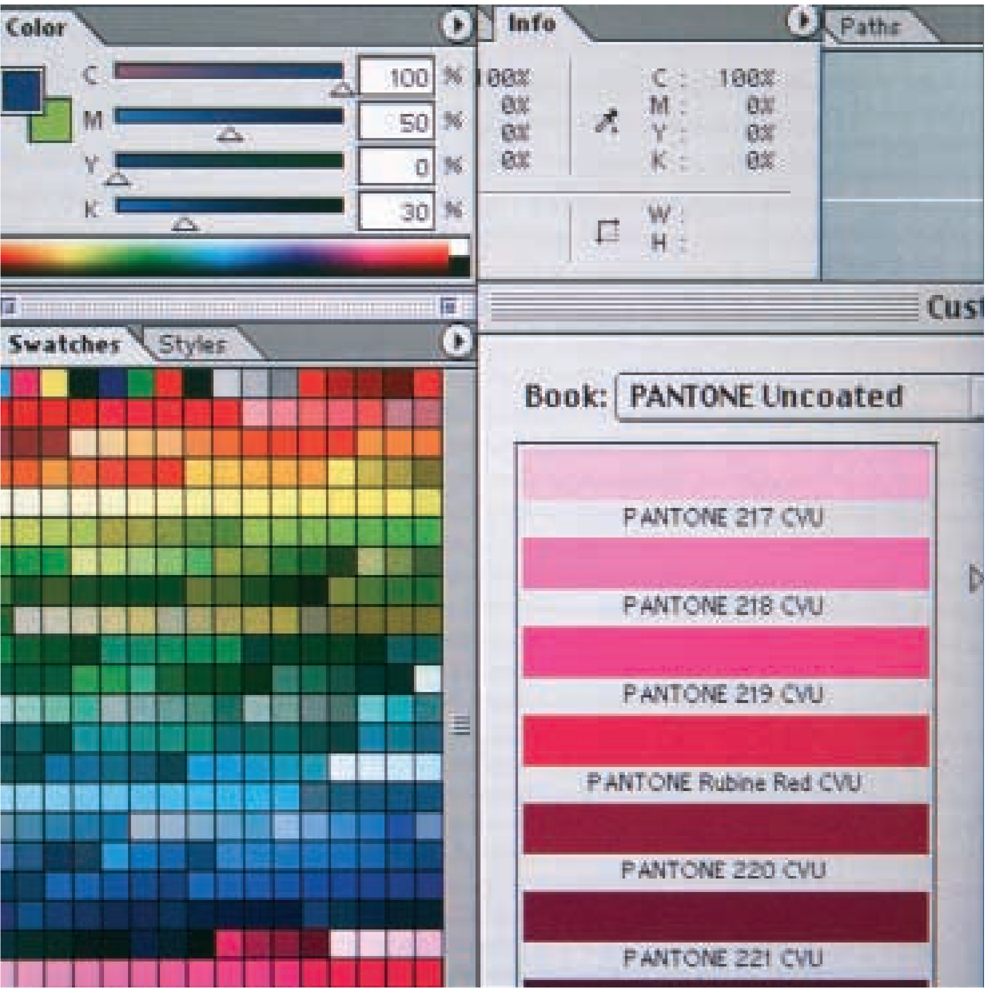
Report of the Board

well as state and private companies. The aim of the Group is to provide wireless communications for data and voice transmissions at reasonable prices. The Group believes that its success is based on flexibility, unique approach to scientific research and ability to provide its customers with high quality solutions at a low price.

Activity of the Group in the reporting year

The Group's consolidated net sales for the financial year 2006/2007 were LVL 13 362 094 (EUR 19 012 547), on par with financial year 2005/2006. The CIS region demonstrated 12 month revenue growth of 42% due to the successful cooperation with several notable GSM, CDMA and alternative operators in Russia, Ukraine, Tajikistan and Azerbaijan. Recurring supplies to this region are projected for the coming financial year.

The Asian region posted a revenue decrease of 16%. This was mostly due to the delay of the



India project. Sales volumes to China were at the same levels as in the previous financial year 2005/2006. Currently the Group has already received the first orders for the delayed India project and partial deliveries commenced in Q1 of financial year 2007/2008. The 34% decrease of sales volumes in Latin America is mainly influenced by lower demand in Columbia and the impact of Brazilian market regulations, which provide competition protection to local manufacturers.

Sales to the African region increased by 65% during the financial year. Sales volumes in Europe have grown by 11% as a result of increasing demand for the SAF SDH (high capacity) product line, which was launched in 2006.

The Group was exporting its products to 62 countries all over the world, and its aggregate exports for the reporting period comprised LVL 12 455 739 (EUR 17 722 920), which is by largely on par with the prior financial year.

The consolidated net profit of the Group for the financial year 2006/2007 was LVL 159 582 (EUR 227 065). The main reasons for the profit decrease were the delay of the large-scale shipments in Q4, as well as the high operational costs. The cost cutting plan was fully implemented in June (in SAF Tehnika Latvia). June staff expenses were 28% lower compared with March, while the headcount reduction was 13%. The plan came into effect in SAF Tehnika's Swedish subsidiary in July, allowing a further decrease in subsidiary staff expenses by 10%.

The Group increased its production capacity in the reporting year by having invested LVL 1 310 292 (EUR 1 864 377) in acquisition of new tangible and intangible assets. The new CFQ (SDH) series products were successfully launched to the market during the reporting period. The new SDH product's sales growth has exceeded expectations in financial year 2006/2007. Now SDH products are introduced in all regions of the World and received clear acceptance by customers.

After the consolidation the Point to Point (P2P) wireless radio market has showed price erosion decreasing sales profitability. In telecom operator market main focus is on combining different services such as voice, data and TV communication in the same network demanding higher data capacities. Worldwide grows in internet utilization demands faster data networks to cover customer growing needs. Growing demand of data capacity influences increase of demand for high capacity products. As SDH products are two times more expressive than PDH products, currently significant part of demand migrates to Super PDH products, which offer higher capacity than PDH and are priced less than SDH. The Group plans to launch the new hybrid (super PDH) product during the 2007/2008 financial year.

According to decision of annual shareholders meeting, the Group has paid dividends LVL 0.20

Report of the Board

per (EUR 0.28) share and cancelled 60 000 dematerialized employee motivation title shares without voting rights according to terms of reduction of share capital.

Research and development

One of the Group's priorities is development of new products as well as the improvement of existing ones, thereby constantly offering more qualitative and diverse solutions, which is one of the corner stones of business achievements. In the reporting year, the Group developed and improved several products of the CFM (PDH) line, and continued working on the development of the CFQ line products. Moreover, in response to growing demands for low-cost microwave radios with high data-rate transmission capacity, the Group commenced the development of CFP (Super PDH) family of microwave digital radio with Ethernet interface. Commonly known in the telecommunications industry as Super-PDH, this type of microwave radio will use higher-capacity modulation than existing PDH radios and will combine both PDH and SDH functionality. The result will be enhanced data transmission capacity - up to 68 Mbps in contrast to the 34 Mbps that is currently available from traditional PDH radios. In addition, the new radio will cost considerably less than SDH radios.

The Group believes this project will markedly raise the technical competence of participants and will promote the growth of R&D in Latvia. The launch of the new product resulting from this research program is anticipated in the beginning of 2008.

Foreign branches and representation offices

The Swedish subsidiary SAF Tehnika Sweden develops a radio-link product portfolio which complies with the international SDH-standard (ETSI).

During the last financial year SAF Tehnika Sweden completed the development of 13Ghz and 38Ghz radio equipment, these are now in production and are being delivered to customers. In order to further increase the SDH-portfolio a number of new development projects have started. These new projects will, during current financial year, increase the portfolio and make it more complete. The objective is to increase the functionality in order to offer our customer more complete affordable SDH radio-link solutions.

SAF Tehnika Sweden has developed a high quality user-friendly product-family with affordable prices. The commitment with ongoing development will ensure that this will be the case also in the future.

Future prospects

In the 2007/2008 financial year, the Group plans to keep on developing new products and improving the existing product range in accordance with the latest market tendencies. Previous investments in market development should bring more stable business in all regions decreasing influence of large projects on revenues. Mostly all countries in Europe are covered by active partner network. Largest growth is expected in Africa. Projects in Asia and particularly in India were delayed, but have been already restarted in Q1 of financial year 2007/2008 and large order from Cambodia is expected during first half of 2007/2008 financial year.

Expectations in the Middle East are conservative and growth could be achieved only by accessing new customers in such countries as Egypt, Saudi Arabia or Bangladesh. Existing situation in CIS is very promising and further business growth is expected generally in Russia and countries of central Asia.

The annual report has been approved by the general shareholders' meeting on 13 November 2007.
Chairman of the general shareholders' meeting

Normunds Bergs
Chairman of the Board

Riga, 26 October 2007

Statement of board's responsibilities

The Board of SAF Tehnika A/S (hereinafter – the Company) is responsible for preparing the consolidated financial statements of the Company and its subsidiary (hereinafter – the Group).

The consolidated financial statements set out on pages 20 to 44 are prepared in accordance with the source documents and present fairly the financial position of the Group as at 30 June 2007 and the results of its financial performance and cash flows for the year then ended.

The above mentioned financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the management in the preparation of the consolidated financial statements.

The Board of SAF Tehnika A/S is responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets and the prevention and detection of fraud and other irregularities in the Group. The Board is also responsible for the compliance with the laws of the countries in which the Group's companies are operating (Latvia and Sweden).

For the Board,

Normunds Bergs
Chairman of the Board

Riga, 26 October 2007

Supervisory council report

Riga, October 26, 2007

During the financial year Joint Stock Company „SAF Tehnika" (hereafter - Group) has continued its operations according to its chosen strategy of maintaining high production quality while optimizing costs.

Although the Group has increased sales growth in such regions as Africa, Europe and CIS, the delay concerning large projects in the Asia region posted a revenue decrease. Therefore the Management Board actively commenced a cost cutting plan in order to minimize the effect of project delay.

Combining the minimization of operational expenses together with further market diversification will enable the Group to achieve stable business volumes and decrease the influence of unforeseen market recensions.

The R&D department has made great efforts to improve existing products and develop new products for SDH product series. The Group is expecting the start of development of Super PDH product series in the next financial year, thus improving the competitiveness of the Group in the global market.

As the sales efforts in most regions, except Asia and Latin America were successful, the Supervisory Council advises the Management Board to use best endeavors to achieve stable sales volumes in all regions, in order to maintain stable revenue and increase the sales activities in Asia and Latin America to ensure the fulfillment of the delayed projects.

The Supervisory Council is convinced that the Group is in a good position to increase sales and improve its results next financial year.

During the previous financial period the Supervisory Council has performed its duties to monitor the activities of the Group according to legislation and the resolutions of shareholders, reviewed financial reports and monitored the actions of the management.

Vents Lacars
Chairman of the Supervisory Council

Personnel

The personnel management is a significant factor in effective and successful business development of SAF Tehnika. The Group is constantly developing and considers it a duty to follow the latest global trends in its industry. Along with the Group development the employment figures have significantly grown during FY 2006/07. By the beginning of the year, the Group had employed 153 people. In subsequent quarters, the number of employees grew and stabilised reaching 171 by the end of the year. 23% of employees are female, 77% - male. The average age of the Group's employees is 36. A significant proportion of all employees is composed of newcomers - 35%, however approximately half - 46% are long-term employees forming the Group's core. Each department: administration, research and development, supplies, production, sales and marketing, logistics and accounting, business development and technical support – is a crucial element in the successful operation and development of the Group. Thus, each employee makes a fundamental contribution to the general activity of the Group.

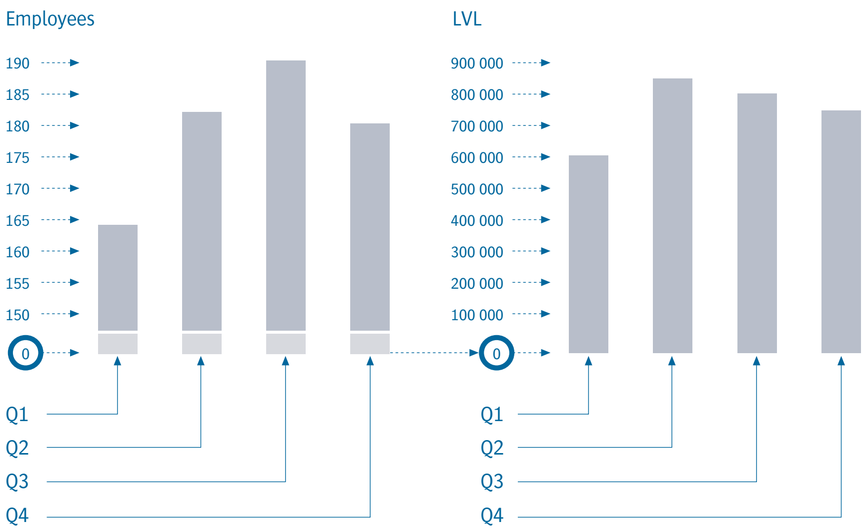
SAF Tehnika customers are the basis for its current and future development; therefore, great emphasis is put to fulfil the wishes and needs of the Group's clients offering high-quality products to the market. Thus, the importance of employees' competence, professionalism and motivation increases. Taking into account the international business environment of SAF Tehnika, the Group applies a diversity approach in the personnel selection, employing people of different genders, ages and nationalities. Tin this way, the Group's business efficiency is increased: a gamut of experiences and viewpoints enriches the working environment and enhances social tolerance. The personnel internal rotation is being efficiently applied motivating the Group's current employees. The main advantages of the rotation are ensured growth for employees, lower selection expenses and increased corporate loyalty overall, as well as added value to each new job: a person who already knows the company is more productive by bringing something from their previous experience in the new job.

The Group takes part in projects aimed at informing students of social and technical sciences about industrial companies and raising popularity, as well as the Group cooperates with professional education institutions to provide practice for the students in the company, thus informing the potential future employees about work possibilities in SAF Tehnika.

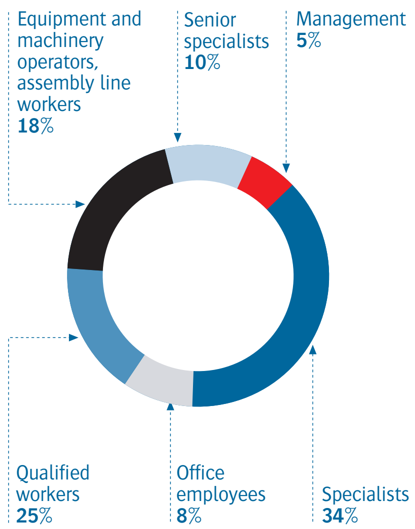
Keeping up with the development of the changing market, the Group devotes even more attention to personnel education and development. SAF Tehnika encourages its employees to raise their qualification - educational needs of employees are determined and necessary competence is developed by organising, coordinating and monitoring the process of internal as well as external training.

The Group offers contemporary environment for effective and successful work of employees by taking care of workspaces and equipment as well as rest areas. SAF Tehnika employees have the opportunity to actively engage in Quality Management System work and take part in a number of processes which broaden the understanding of each employee's value and role within the Group. Showing concern for its employees, the Group organizes mandatory medical examinations annually and also provides health insurance. Every year, SAF Tehnika manages corporate activities: sports games, New Year's Eve balls and other activities that stimulate unity of employees and loyalty to the Group.

Proportion of number of employees and labour cost in financial year 2006/2007



Division of employees by job category



Commitment to Society

The Group considers great value in the commitment to society, therefore the Group takes various actions in order to support programs benefiting the whole society. Last year The Group reasonably invested in different charity and sponsorship projects.

We supported various projects in education, social responsibility and sports.

The Group has continued active participation in the projects for popularizing engineer carriers and development of engineering. The Group was involved in different educational and research projects organized by Latvian Electrical Engineering and Electronics Industry Association, the Group considers that the actions of popularization of technical education and inventions is the only way to achieve growth and development of the industry.

We have supported development of young inventors and participated in funding of young inventors activities. The Group has provided practical training for students of Riga Technical University and organized study visits to the Group's premises to give future engineers insight of the profession.

We have supported several sports activities - Latvian cycling federation and archery sports club. We believe that will benefit no only the Group but the whole society.

Environmental reporting

The Group is committed to new actions that limit hazardous waste. The Group is participating in the programs of safe disposal of Waste of Electrical and Electronic Equipment and is compliant with Directive 2002/96/EC on waste of electrical and electronic equipment (WEEE).

To minimize environmental impacts the Group organizes effective waste handling and reduces the use of harmful substances. The policy of the Group is to use the best endeavors for conserving raw materials, water and energy; eliminating the use of toxic raw materials and substances; reducing the quantity and toxicity of wastes. The Group is a participant in the program of recycling packing materials.

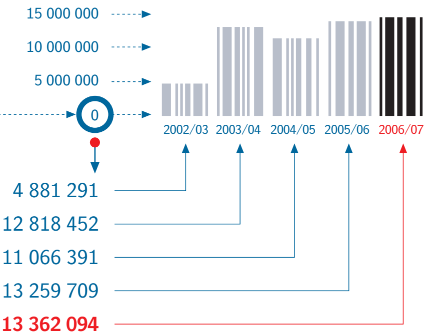
Production is organized to comply with Directive 2002/95/EC on the restriction of the use of certain hazardous substances in electrical and electronic equipment and the produced equipment is RoHS compliant.

Any coincidence might become a regularity

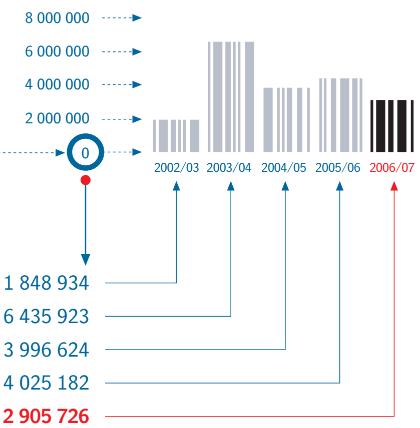
Net Profit, LVL

Financial highlights

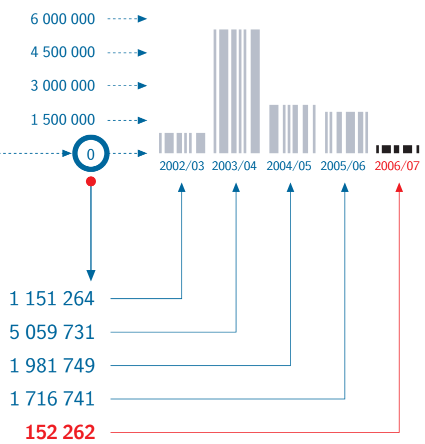
Net Sales, LVL

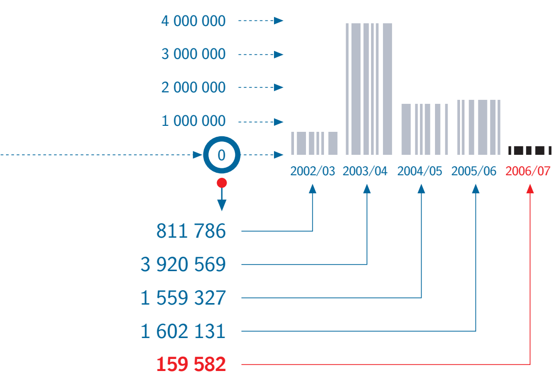


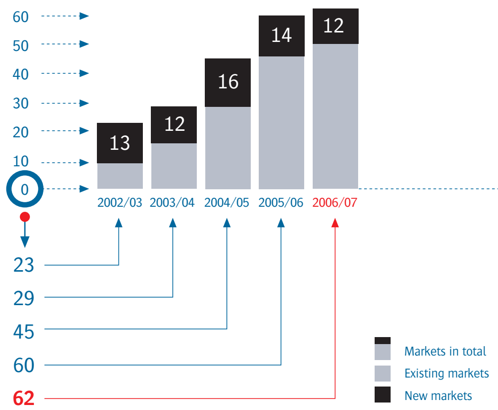
Gross Profit, LVL



Operating Profit, LVL







Number of markets

Group key figures describing economic development

	2006/07	2005/06	2004/05	2003/04	2002/03	2001/02
Turnover	13,362,094	13,259,709	11,066,391	12,818,452	4,881,291	1,582,877
Earnings before interest, taxes and depreciation (EBITDA)	1,107,147	2,361,819	2,512,645	5,255,447	1,283,822	122,615
share of the turnover %	8%	18%	23%	41%	26%	8%
Operating profit	152,262	1,716,741	1,981,749	5,059,731	1,151,264	90,713
share of the turnover %	1%	13%	18%	39%	24%	6%
Profit/loss before interest and taxes (EBIT)	322,059	1,666,216	1,959,205	4,922,075	1,099,163	67,279
share of the turnover %	2%	13%	18%	38%	23%	4%
Net Profit	159,582	1,602,131	1,559,327	3,920,569	811,786	42,102
share of the turnover %	1%	12%	14%	31%	17%	3%
Return on equity (ROE) %	2%	20%	22%	92%	79%	13%
Return on assets (ROA) %	1%	17%	19%	66%	37%	4%
Liquidity ratio						
Quick ratio %	12%	54%	14%	54%	0%	11%
Current ratio %	116%	201%	260%	246%	52%	61%
Average number of employees	182	136	124	90	48	25

Holdings and shares

Shareholders with a share ownership above 5% on 25.09.2007

Name	Number of shares (%)
Hansapank AS Clients Account	24,41%
Didzis Liepkalns	17,05%
Skandinaviska Enskilda Banken AB Clients Account	10,47%
Andrejs Grisans	10,03%
Normunds Bergs	9,74%
Juris Ziema	8,71%
Vents Lacars	6,08%

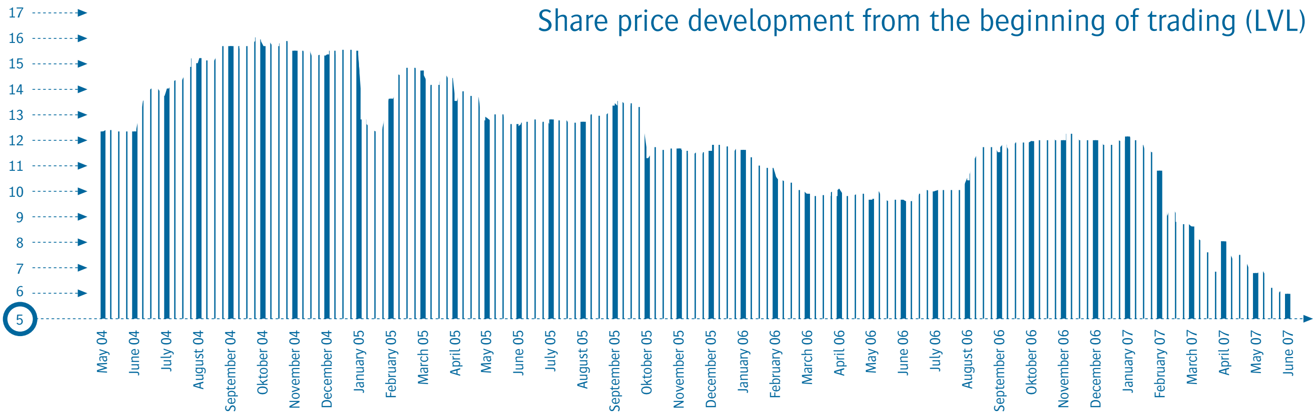
Share price development

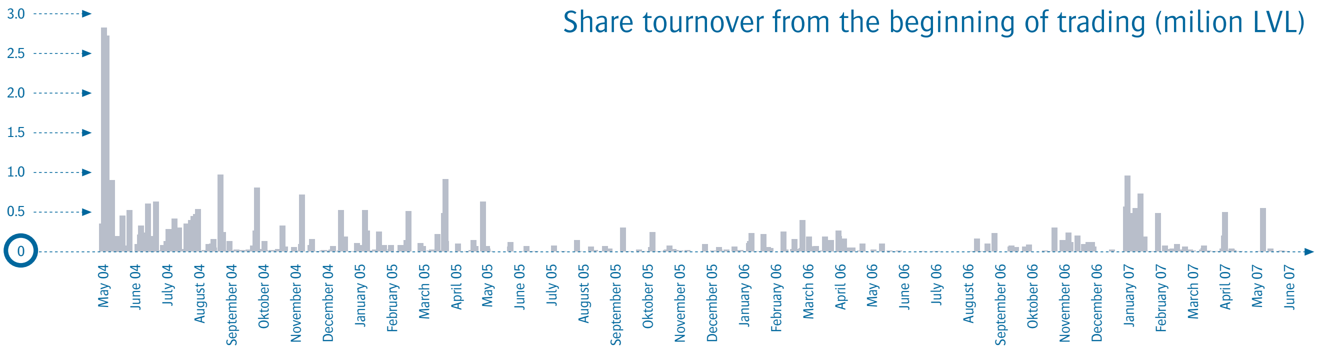
Share and dividend related information

	2006/07	2005/06
Share price (last) for the end of period	5.95	9.60
Market value of share capital	17,672,571	29,089,728
Earnings per share (EPS)	0.05	0.51
Dividend per share (for the previous reporting period)	0.20	0.10
Dividend / net profit (for the previous reporting period)	0.37	0.08
P/E ratio	110.74	18.66

The lowest, the highest and medium (average) share price for the reporting period

	2006/07	2005/06
Lowest	5.95	9.60
Highest	12.25	13.50
Medium	10.43	10.85





Basic information about trading

ISIN	LV0000101129
Name	SAF1R
List	Baltic main list
Stock Exchange	Riga Stock Exchange (OMX group)
Inclusion in indexes	OMX Riga, OMX Baltic Benchmark GI, OMX Baltic Benchmark Cap GI, OMX Baltic GI
Liquidity prioviders	Hansabanka, Parex banka
Nominal value	1.00 LVL
Total number of securities	2,970,180
Number of listed securities	2,970,180
Listing date	26-05-04

Corporate governance

In the accounting period A/S SAF Tehnika has implemented the principles of good corporate governance.

Selected principles from SAF Corporate Governance report

Shareholder meetings

Shareholders exercise their right to participate in the management of SAF at shareholders meetings. In compliance with legal acts the Company calls the annual shareholders' meeting once a year. Extraordinary shareholders' meetings shall be called if required. All shareholders have equal rights to participate in the management of the Company. All shareholders are entitled to participate at shareholders' meetings and receive information that shareholders need in order to make decisions.

Selection methods of Management Board and Supervisory Board:

According to the Commercial law of Latvia and the Charter of the Company the Supervisory Board is elected by the General meeting of Shareholders for the term of three years.

The Management Board is elected by the Supervisory Board. Management Board members must meet the criteria approved by Supervisory Board.

Powers of the Management Board

Powers of the Management Board are set in the charter of the company. The charter of SAF is available on SAF Tehnika website www.saftehnika.com

Other contractual agreements with auditors

The Company does not have any other contractual agreement with auditors, except auditing agreement.

The report document can be found on the webpage of the enterprise:

www.saftehnika.lv.

Independent Auditors' report

To the shareholders of AS SAF Tehnika

Ernst & Young Baltic SIA
Kronvalda Boulevard 3-5
LV-1010, Riga, Latvia
Phone: 371 7 043-801
Fax: 371 7 043-802
www.ey.com/lv
Riga@lv.ey.com

Report on the Financial Statements

We have audited 2006/2007 consolidated financial statements of AS SAF Tehnika (the "Company"), which are set out on pages 7 through 37 of the accompanying 2006/2007 Annual Report and which comprise the balance sheet as at 30 June 2007, the statements of income, changes in equity and cash flows for the year then ended, and summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by EU. This responsibility includes: designing,

Implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an option on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of AS SAF Tehnika as of 30 June 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 30 June 2007 (included on pages 3 through 4 of the accompanying 2006/2007 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the consolidated financial statements for the year ended 30 June 2007.

SIA Ernst &Young Baltic
Licence No. 17

Diana Krišjane
Personal ID code:250873-12964
Chairperson of the Board

Ivars Ragainis
Personal ID code: 090480-11034
Latvian Sworn Auditor
Certificate No. 159

Riga, 26 October 2007

Consolidated balance sheet

Year ended 30 june	Notes	2007 LVL	2006 LVL	2007 EUR	2006 EUR
ASSETS					
Non-current assets					
Property, plant and equipment	5	1 366 598	857 774	1 944 494	1 220 502
Intangible assets	6	600 335	682 639	854 200	971 308
Non-current financial assets	8	590	17 640	839	25 100
Deferred tax assets	15	138 680	149 627	197 324	212 900
		2 106 203	1 707 680	2 996 857	2 429 810
Current assets					
Inventories	9	5 438 158	4 459 787	7 737 802	6 345 705
Corporate income tax prepaid		351 086	285 625	499 550	406 408
Trade receivables	10	2 356 115	3 002 789	3 352 450	4 272 584
Other receivables	11	257 594	299 737	366 523	426 487
Prepaid expense		73 860	79 757	105 093	113 484
Derivatives	12	-	21 593	-	30 724
Cash and cash equivalents	13	299 588	1 244 633	426 275	1 770 953
		8 776 401	9 393 921	12 487 693	13 366 345
Total assets		10 882 604	11 101 601	15 484 550	15 796 155
EQUITY					
Share capital	14	2 970 180	2 970 180	4 226 185	4 226 185
Share premium		2 004 204	2 004 204	2 851 725	2 851 725
Currency translation reserve		15 968	(5 544)	22 720	(7 888)
Retained earnings		3 390 686	3 825 140	4 824 512	5 442 684
Total equity		8 381 038	8 793 980	11 925 142	12 512 706
LIABILITIES					
Current liabilities					
Payables	16	1 029 031	2 268 864	1 464 179	3 228 303
Borrowings	17	1 467 416	7 456	2 087 945	10 609
Deferred income		5 119	31 301	7 284	44 537
Total liabilities		2 501 566	2 307 621	3 559 408	3 283 449
Total equity and liabilities		10 882 604	11 101 601	15 484 550	15 796 155

The accompanying notes on pages 24 to 44 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 20 to 44 were approved by the Board and signed on its behalf by:

Normunds Bergs
Chairman of the Board

Riga, 26 October 2007

Consolidated income statement

Year ended 30 june	Notes	2007 LVL	2006 LVL	2007 EUR	2006 EUR
Sales	18	13 362 094	13 259 709	19 012 547	18 866 866
Cost of sales	19	(10 456 368)	(9 234 527)	(14 878 071)	(13 139 548)
Gross profit		**2 905 726**	**4 025 182**	**4 134 476**	**5 727 318**
Selling and marketing costs	20	(1 825 480)	(1 458 678)	(2 597 424)	(2 075 512)
Administrative expense	21	(927 984)	(849 763)	(1 320 402)	(1 209 104)
Other income	22	251 816	102 219	358 302	145 445
Financial revenue		6 549	49 849	9 318	70 929
Financial costs	23	(180 753)	(204 893)	(257 188)	(291 537)
Profit before taxes		**229 874**	**1 663 916**	**327 082**	**2 367 539**
Corporate income tax	24	(70 292)	(61 785)	(100 017)	(87 912)
Profit for the year		**159 582**	**1 602 131**	**227 065**	**2 279 627**
Attributable to:					
Shareholders of the Company		159 582	1 602 131	227 065	2 279 627
		159 582	1 602 131	227 065	2 279 627
Earnings per share attributable to the shareholders of the Company (LVL per share)					
– basic	25	0.05	0.54	0.08	0.77
– diluted	25	0.05	0.54	0.08	0.77

The accompanying notes on pages 24 to 44 are an integral part of these consolidated financial statements.

Normunds Bergs
Chairman of the Board

Riga, 26 October 2007

Consolidated statement of changes in equity

	Share capital (Note 14) LVL	Share premium LVL	Reserve* LVL	Currency translation reserve LVL	Retained earnings LVL	Total LVL
Balance as at 30 June 2005	2 970 180	2 004 204	1 023 402	(1 090)	1 496 625	7 493 321
Currency translation difference	-	-	-	(4 454)	-	(4 454)
Total income and expense for the year recognized directly in equity	-	-	-	(4 454)	-	(4 454)
Profit for the year	-	-	-	-	1 602 131	1 602 131
Total income and expense for the year	-	-	-	(4 454)	1 602 131	1 597 677
Dividends for 2004/2005	-	-	-	-	(297 018)	(297 018)
Distribution of profit and reserves	-	-	(1 023 402)	-	1 023 402	-
Balance as at 30 June 2006	2 970 180	2 004 204	-	(5 544)	3 825 140	8 793 980
Currency translation difference	-	-	-	21 512	-	21 512
Total income and expense for the year recognized directly in equity	-	-	-	21 512	-	21 512
Profit for the year	-	-	-	-	159 582	159 582
Total income and expense for the year	-	-	-	21 512	159 582	181 094
Dividends for 2005/2006	-	-	-	-	(594 036)	(594 036)
Balance as at 30 June 2007	2 970 180	2 004 204	-	15 968	3 390 686	8 381 038

	Share capital (Note 14) EUR	Share premium EUR	Reserve* EUR	Currency translation reserve EUR	Retained earnings EUR	Total EUR
Balance as at 30 June 2005	4 226 185	2 851 725	1 456 170	(1 551)	2 129 506	10 662 035
Currency translation difference	-	-	-	(6 337)	-	(6 337)
Total income and expense for the year recognized directly in equity	-	-	-	(6 337)	-	(6 337)
Profit for the year	-	-	-	-	2 279 627	2 279 627
Total income and expense for the year	-	-	-	(6 337)	2 279 627	2 273 290
Dividends for 2004/2005	-	-	-	-	(422 619)	(422 619)
Distribution of profit and reserves	-	-	(1 456 170)	-	1 456 170	-
Balance as at 30 June 2006	4 226 185	2 851 725	-	(7 888)	5 442 684	12 512 706
Currency translation difference	-	-	-	30 608	-	30 608
Total income and expense for the year recognized directly in equity	-	-	-	30 608	-	30 608
Profit for the year	-	-	-	-	227 065	227 065
Total income and expense for the year	-	-	-	30 608	227 065	257 673
Dividends for 2005/2006	-	-	-	-	(845 237)	(845 237)
Balance as at 30 June 2007	4 226 185	2 851 725	-	22 720	4 824 512	11 925 142

* This reserve has been established by distributing the profit according to the shareholders' decision and can be used subject to the shareholders' approval.

The accompanying notes on pages 24 to 44 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

Year ended 30 june	Notes	30.06.2007 LVL	30.06.2006 LVL	30.06.2007 EUR	30.06.2006 EUR
Profit before tax		229 874	1 663 916	327 082	2 367 539
Adjustments for: depreciation	5	628 846	554 155	894 768	788 491
amortization	6	156 242	141 448	222 312	201 262
changes in allowance for slow-moving inventories	9	86 843	83 758	123 566	119 177
changes in accruals for unused annual leave	16	38 320	41 090	54 524	58 466
changes in allowances for bad debtors	10	(28 279)	(66 368)	(40 237)	(94 433)
interest income		(6 549)	(19 268)	(9 318)	(27 416)
interest expense	23	92 185	2 300	131 167	3 273
(gain)/loss from revaluation of derivative financial instruments	23	21 593	(30 581)	30 724	(43 513)
(gain)/loss from sale of PPE		(14 637)	1 422	(20 827)	2 024
receipt of government grant	22	(207 783)	(100 958)	(295 649)	(143 650)
cancellation of loan		17 050	-	24 260	-
allowance for loan to LETERA	8	44 458	-	63 258	-
Cash generated from operations before changes in working capital		1 058 163	2 270 914	1 505 630	3 231 220
Inventories (increase)		(1 056 821)	(177 763)	(1 503 721)	(252 934)
Receivables decrease/ (increase)		752 058	(1 479 418)	1 070 083	(2 105 022)
Payables increase/ (decrease)		(1 278 153)	1 487 412	(1 818 648)	2 116 397
Cash generated from operating activities		(524 753)	2 101 145	(746 656)	2 989 661
Receipt of government grant	22	39 589	100 958	56 330	143 650
Interest paid	23	(92 185)	(2 300)	(131 167)	(3 273)
Income tax paid		(1 768)	(280 801)	(2 516)	(399 544)
Net cash generated from operating activities		(579 117)	1 919 002	(824 009)	2 730 494
Cash flow from investing activities					
Purchases of property, plant and equipment	5	(1 230 449)	(348 433)	(1 750 771)	(495 775)
Proceeds from sale of PPE		103 916	1 260	147 859	1 793
Purchases of intangible assets	6	(79 843)	(126 541)	(113 606)	(180 052)
Interest received		11 060	14 757	15 737	20 997
Issued long-term borrowings	8	(44 458)	(17 641)	(63 258)	(25 101)
Net cash (used in) investing activities		(1 239 774)	(476 598)	(1 764 039)	(678 138)
Cash flows from financing activities					
Proceeds from borrowings		1 459 960	1 355	2 077 336	1 928
Dividends paid to Company's shareholders	26	(594 036)	(297 018)	(845 237)	(422 619)
Net cash (used in) financing activities		865 924	(295 663)	1 232 099	(420 691)
Effect of exchange rate changes		7 922	(7 298)	11 271	(10 384)
Net increase/ (decrease) in cash and cash equivalents		(945 045)	1 139 443	(1 344 678)	1 621 281
Cash and cash equivalents at the beginning of the year		1 244 633	105 190	1 770 953	149 672
Cash and cash equivalents at the end of the year	13	299 588	1 244 633	426 275	1 770 953

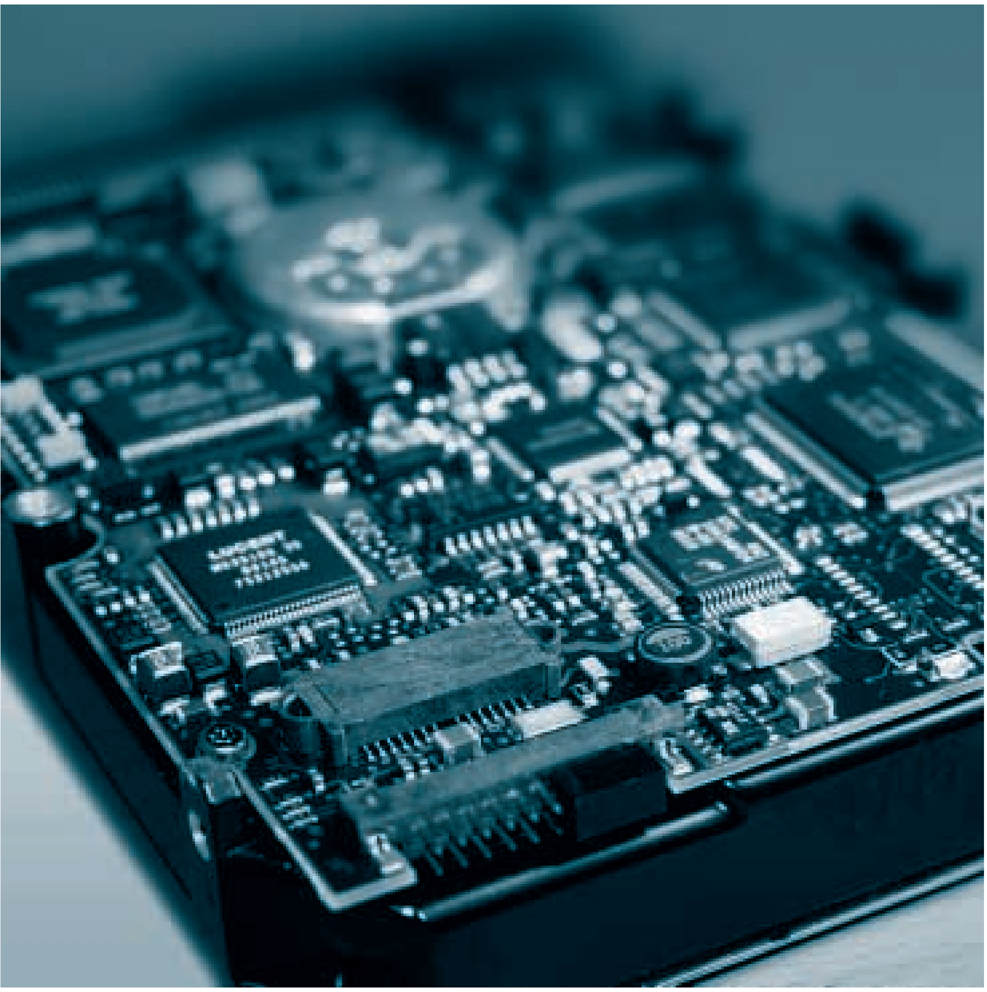
The accompanying notes on pages 24 to 44 are an integral part of these consolidated financial statements.

Everything is relative in this world: even the most complicated things in certain circumstances can be seen as very simple ones

1. General information

The core business activity of SAF Tehnika A/S (hereinafter – the Company) and its subsidiary (hereinafter – the Group) comprises the design, production and distribution of microwave radio data transmission equipment offering an alternative to cable channels. The Company offers approximately 200 products to mobile network operators, data service providers (such as Internet service providers and telecommunications companies), as well as state and private companies. The Company owns 100% subsidiary SAF Tehnika Sweden AB, established in

Notes to the consolidated financial statements



May 2004, which is engaged in the development of microwave radio equipment.

The Company is a public joint stock company incorporated under the laws of the Republic of Latvia. The address of its registered office is Ganību dambis 24a, Riga, Latvia.

The shares of the Company are listed on Riga Stock Exchange, Latvia.

These consolidated financial statements were approved by the Board on 26 October 2007.

The Company's shareholders have the power to amend the consolidated financial statements after the issue.

The annual full reporting period for the Group is set from 1 July until 30 June.

2. Summary of significant accounting policies

The principal accounting and measurement policies adopted in the preparation of these consolidated financial statements are set out below:

A Basis of preparation

The consolidated financial statements of SAF Tehnika Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The consolidated financial statements have been prepared under the historical cost convention except for certain financial assets (e.g. derivatives are measured at fair value).

The accounting policies used by the Group are consistent with those used in the previous accounting period.

Adoption of standards

In 2006/2007, the Group adopted the below IFRSs relevant to its operations. The adoption of these IFRSs did not result in any change to the Group's financial statements.

(a) IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 March 2006). This interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period.

(b) IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). This interpretation requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.

(c) IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

B Consolidation and business acquisition

Subsidiaries involved in the consolidation are companies in which the Parent Company directly or indirectly owns more than a half of the voting rights or has otherwise obtained the power to govern their operations. The existence and effect

Notes to the consolidated financial statements

of potential voting rights that are currently exercisable or convertible are considered when assessing whether or not the Parent Company controls another company.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries or businesses.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed on the acquisition date, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combinations are initially measured at their fair values on the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

C Foreign currency translation

(a) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in lats (LVL), which is the Company's functional and presentation currency. According to the requirements of Riga Stock Exchange, all balances are also stated in euros (EUR). For disclosure purposes, the currency translation has been performed by applying the official currency exchange rate determined by the Bank of Latvia, i.e. EUR 1 = LVL 0.702804.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies
The results and financial position of the Group entities (none of which having the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities are translated at the closing rate at the date of the respective balance sheet;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity or business are treated as assets and liabilities of the foreign entity and translated at the closing rate.

D Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such plant and equipment when that cost is incurred if the recognition criteria are met.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Current repairs are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets to allocate their cost to the estimated residual values applying the following depreciation rates:

	% per annum
Mobile phones	50
Technological equipment	33.33
Transport vehicles	20
Other fixtures and fittings	25

Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life of leasehold improvement and the term of lease.

The assets residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year-end. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount (see Note G).

Gains and losses on disposals are determined by comparing proceeds with the respective carrying amount and included in the income statement.

E Intangible assets other than goodwill

(a) Intangible assets arising from development
Intangible assets arising from development are measured on initial recognition at cost. Subsequently, these are measured at cost less any accumulated amortisation and any accumulated impairment losses. The cost of

intangible assets acquired in a business combination corresponds to their fair value on the acquisition date.

Amortization is charged from the moment when the underlying assets are available for use. The amortization is calculated using the straight line method to allocate the cost of product prototypes over the estimated useful life of 10 years.

(b) Trademarks and licenses

Trademarks and licenses have a definite useful life and are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight-line basis to allocate the costs of trademarks and licenses over their estimated useful life, which usually is 3 years.

(c) Software

Acquired computer software licenses are capitalised on the basis of the purchase and installation costs. These costs are amortised over their estimated useful lives of three years.

F Research and development

Research costs are expensed as incurred. An intangible asset arising from the development expenditure on an individual project is recognized only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intentions to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and any accumulated impairment losses. Any expenditure capitalized is amortized over the period of expected future sales from the related project.

G Impairment of assets

Intangible assets that are not put in use or have an indefinite useful life (incl. goodwill) are not subject to amortisation and are reviewed for impairment on an annual basis. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling costs and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

H Segments

A geographical segment provides products or services within a particular economic environment that is subject to risks and benefits different from those of components operating in other economic environments. A business segment is a group of assets and operations providing products or services that are subject to risks and benefits different from those of other business segments.

I Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is stated on a first-in, first-out (FIFO) basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Costs of finished goods and work-in-progress inc lude cost of materials.

J Receivables

Receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Allowance for impairment of receivables is established when there is objective evidence that the Group will not be able to collect the full amount due according to the original terms. The amount of the allowance is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate. Change in allowance is recognised in the income statement.

K Cash and cash equivalent

Cash and cash equivalents comprise current bank accounts balances and deposits, and short-term highly liquid investments with an original maturity of three months or less.

L Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares charged against the share premium account.

M Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the Group is entitled to postpone the settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are recognized as an expense when incurred.

N Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business acquisition that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

Deferred income tax is determined using tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be avail-able against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the consolidated financial statements

O Employee benefits

The Group makes social insurance contributions under the State's health, retirement benefit and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. The Group pays fixed contributions to a privately administered pension insurance plan. The Group will have no legal or constructive obligations to pay further contributions if the statutory fund or the private pension plan cannot settle their liabilities towards the employees. The cost of these payments is included into the income statement in the same period as the related salary cost.

P Revenue recognition

Revenue comprises the fair value of the goods and services sold, net of value-added tax, discounts and inter-Group sales. Revenue is recognised as follows:

(a) Sale of goods
Sale of goods is recognised when a Group entity has passed the significant risks and rewards of ownership of the goods to the customer, i.e. delivered products to the customer and the customer has accepted the products in accordance with the contract terms, and collectibility of the related receivables is reasonably assured.

(b) Rendering of services

Revenue is recognised in the period when the services are rendered.

R Leases

Leases of property, plant and equipment in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease period.

S Dividend payment

Dividends payable to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

T Government grants

Government grants are recognized where there is a reasonable assurance that the grant will be received and all attaching conditions will be complied. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on systematic basis to the costs that is intended to compensate. Where the grant relates to an asset, the fair value is credit to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

U New accounting standards and IFRIC interpretations

Certain new accounting standards and IFRIC interpretations are mandatory for accounting periods beginning on or after 1 January 2007. The Group's assessment of the impact of these new and amended standards and interpretations is set out below:

(a) IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). IFRS 7 requires disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

(b) IFRS 8 Operating Segments (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 supersedes IAS 14 Segment Reporting.

(c) Amendment to IAS 1 ("Capital Disclosures") (effective for annual periods beginning on or after 1 January 2007). This amendment requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes of managing capital.

(d) Amendment to IAS 23 ("Borrowing costs") (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 January 2009). According to this amendment, borrowing costs, that are directly attributable to the acquisition, construction or production of a qualifying asset, should form part of the cost of that asset.

(e) IFRIC 10 Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). This interpretation establishes that entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

(f) IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.

(g) IFRIC 12 Service Concession Agreements (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 January 2008). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.

(h) IFRIC 13 Customer Loyalty Programmes (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 July 2008). The interpretation specifies how customer loyalty programs should be accounted for.

(i) IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 January 2008). The interpretation provides guidance on how to assess the limit in IAS 19 Employee benefits on the amount of the surplus that can be recognised as an asset. It also explains how this limit may be influenced by a minimum funding requirement.

The Group has estimated that initial application of these standards would have effect on some of the disclosures in the financial statements but would not require material adjustments of the figures.

3. Financial risk management

(1) Financial risk factors

The Group's activities expose it to a variety of financial risks:
(a) Foreign currency risk;
(b) Credit risk;
(c) Liquidity risk;
(d) Cash flow interest rate risk.

The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise its potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

The responsibility for risk management lies with the Finance Department. The Finance Department identifies and evaluates risks and seeks for solutions to avoid financial risks in close co-operation with other Group's operating units.

(a) Foreign currency risk
The Group operates internationally and is exposed to foreign currency risk mainly arising from U.S. dollar fluctuations.

Foreign currency risk primarily arises from future commercial transactions and recognised assets and liabilities. To manage the foreign currency risk arising from future commercial transactions and recognised assets and liabilities, the Group uses forward FX contracts. The foreign currency risk arises when future commercial transactions and recognised assets and liabilities are denominated

in a currency different from the entity's functional currency. The Finance Department manages the net open position in each foreign currency by signing forward FX contracts or maintaining borrowings (in form of credit line) in appropriate currency and amount.

The Group's risk management policy is to hedge 65% - 85% of expected transactions (mainly export sales) in U.S dollars for the following 6 months.

(b) Credit risk
From time to time the Group has significant exposure of credit risk with its overseas customers. The Group’s policy is to ensure that wholesale of products is carried out with customers having appropriate credit histories. If the customers are residing in countries with high credit risk, then Letters of Credit issued by reputable credit institutions are used as credit risk management instruments. In situations where no Letters of Credit can be obtained from reputable credit institutions, the prepayments from the customers are requested.

As at 30 June 2007, the Company’s credit risk exposure to a single customer amounted to 29.57 % of the total trade receivables (30.06.2006: 54%). The outstanding debt of this customer is supported by Letter of Credit. With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and derivatives, the Group’s exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group’s maximum credit risk exposure amounts to LVL 2 613 709 or 23.41% to total assets (30.06.2006: LVL 3 302 526 or 29.75% to total assets).

(c) Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through short-term borrowings secured by the Letters of Credit terms. Due to the dynamic nature of the core operations, the Finance Department aims to maintain flexibility in funding by obtaining available credit lines.

(d) Cash flow interest rate risk
As the Group does not have significant interest bearing assets, the Group's income and cash flows are largely independent of changes in market interest rates. The Group's cash flows from interest bearing liabilities are dependent on current market interest rates.

(2) Accounting for derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which derivative contract is entered to and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives that do not qualify as hedge accounting are taken directly to profit or loss for the year.

The fair value of forward currency contracts is calculated as by reference to current forward exchange rates for contracts with similar maturity profiles.

(3) Fair value

The carrying amounts of all financial assets and liabilities approximate their fair value.

4. Key estimates and assumptions

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements relate to depreciation and impairment evaluation. Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

Notes to the consolidated financial statements

5. Property, plant and equipment

	Leasehold improvements LVL	Equipment and machinery LVL	Other assets LVL	Prepayments for assets LVL	Total LVL
Year ended 30/06/2006					
Opening net carrying amount	258 680	622 384	163 747	192	1 045 003
Additions	60 687	250 487	26 652	31 782	369 608
Reclassified	-	-	192	(192)	-
Depreciation charge	(47 812)	(432 325)	(74 018)	-	(554 155)
Disposals	-	(1 618)	(1 064)	-	(2 682)
Closing net carrying amount	**271 555**	**438 928**	**115 509**	**31 782**	**857 774**
Year ended 30/06/2007					
Opening net carrying amount	271 555	438 928	115 509	31 782	857 774
Additions	363 734	711 245	155 470	-	1 230 449
Reclassified	-	-	31 673	(31 673)	-
Depreciation charge	(43 651)	(509 165)	(76 030)	-	(628 846)
Disposals		(66 219)	(26 624)		(92 843)
Result of FX rate changes		64			64
Closing net carrying amount	**591 638**	**574 853**	**199 998**	**109**	**1 366 598**
As at 30/06/2005					
Cost	331 026	1 345 324	295 130	192	1 971 672
Accumulated depreciation	(72 346)	(722 940)	(131 383)	-	(926 669)
Net carrying amount	**258 680**	**622 384**	**163 747**	**192**	**1 045 003**
As at 30/06/2006					
Cost	391 713	1 583 145	296 522	31 782	2 303 162
Accumulated depreciation	(120 158)	(1 144 217)	(181 013)	-	(1 445 388)
Net carrying amount	**271 555**	**438 928**	**115 509**	**31 782**	**857 774**
As at 30/06/2007					
Cost	755 447	1 968 188	412 813	109	3 136 557
Accumulated depreciation	(163 809)	(1 393 335)	(212 815)	-	(1 769 959)
Net carrying amount	**591 638**	**574 853**	**199 998**	**109**	**1 366 598**

During the reporting year, the Group did not enter into any operating or finance lease agreements.

Depreciation of LVL 520 110 (2005/2006: LVL 437 234) is included in the income statement caption Cost of sales; depreciation of LVL 49 596 (2005/2006: Ls 53 374) – in Selling and marketing costs; and depreciation of LVL 59 140 (2005/2006: LVL 63 547) – in Administrative expense.

The acquisition cost of fully depreciated property, plant and equipment that is still in use at the end of financial year amounted to LVL 1 016 158 (2005/2006: LVL 647 877).

5. Property, plant and equipment

	Leasehold improvements EUR	Equipment and machinery EUR	Other assets EUR	Prepayments for assets EUR	Total EUR
Year ended 30/06/2006					
Opening net carrying amount	368 068	885 573	232 991	273	1 486 905
Additions	86 350	356 411	37 922	45 222	525 905
Reclassified	-	-	273	(273)	-
Depreciation charge	(68 030)	(615 143)	(105 318)	-	(788 491)
Disposals	-	(2 303)	(1 514)	-	(3 817)
Closing net carrying amount	**386 388**	**624 538**	**164 354**	**45 222**	**1 220 502**
Year ended 30/06/2007					
Opening net carrying amount	386 388	624 538	164 354	45 222	1 220 502
Additions	517 547	1 012 010	221 214	-	1 750 771
Reclassified	-	-	45 067	(45 067)	-
Depreciation charge	(62 110)	(724 477)	(108 181)	-	(894 768)
Disposals	-	(94 220)	(37 882)	-	(132 102)
Result of FX rate changes	-	91	-	-	91
Closing net carrying amount	**841 825**	**817 942**	**284 572**	**155**	**1 944 494**
As at 30/06/2005					
Cost	471 008	1 914 224	419 932	273	2 805 437
Accumulated depreciation	(102 940)	(1 028 651)	(186 941)	-	(1 318 532)
Net carrying amount	**368 068**	**885 573**	**232 991**	**273**	**1 486 905**
As at 30/06/2006					
Cost	557 357	2 252 612	421 913	45 222	3 277 104
Accumulated depreciation	(170 969)	(1 628 074)	(257 559)	-	(2 056 602)
Net carrying amount	**386 388**	**624 538**	**164 354**	**45 222**	**1 220 502**
As at 30/06/2007					
Cost	1 074 904	2 800 479	587 381	155	4 462 919
Accumulated depreciation	(233 079)	(1 982 537)	(302 809)	-	(2 518 425)
Net carrying amount	**841 825**	**817 942**	**284 572**	**155**	**1 944 494**

During the reporting year, the Group did not enter into any operating or finance lease agreements.

Depreciation of EUR 740 050 (2005/2006: EUR 622 128) is included in the income statement caption Cost of sales; depreciation of EUR 70 569 (2005/2006: EUR 75 944) – in Selling and marketing costs; and depreciation of EUR 84 149 (2005/2006: EUR 90 419) – in Administrative expense.

The acquisition cost of fully depreciated property, plant and equipment that is still in use at the end of financial year amounted to EUR 1 445 863 (2005/2006: EUR 921 846).

Notes to the consolidated financial statements

6. Intangible assets

	Product prototypes	Trademarks and licenses	Software	Prepayments	Intangible assets under development	Total
	LVL	LVL	LVL	LVL	LVL	LVL
Year ended 30/06/2006						
Opening net carrying amount	-	40 756	100 910	26 876	525 854	694 396
Additions	-	37 504	43 572	37 337	-	118 413
Reclassified	333 776	26 876	-	(26 876)	(333 776)	-
Amortisation charge	(33 778)	(39 148)	(68 522)	-	-	(141 448)
Result of FX rate changes	-	-	-	-	11 278	11 278
Closing net carrying amount	**299 998**	**65 988**	**75 960**	**37 337**	**203 356**	**682 639**
Year ended 30/06/2007						
Opening net carrying amount	299 998	65 988	75 960	37 337	203 356	682 639
Additions	-	61 419	18 424	-	-	79 843
Reclassified	134 140	16 684	-	(16 684)	(134 140)	-
Amortisation charge	(46 549)	(51 877)	(57 816)	-	-	(156 242)
Disposals	-	-	(4 829)	-	-	(4 829)
Result of FX rate changes	(543)	-	-	-	(533)	(1 076)
Closing net carrying amount	**387 046**	**92 214**	**31 739**	**20 653**	**68 683**	**600 335**
As at 30/06/2005						
Cost	-	134 144	218 552	26 876	525 854	905 426
Accumulated amortisation	-	(93 388)	(117 642)	-	-	(211 030)
Net carrying amount	**-**	**40 756**	**100 910**	**26 876**	**525 854**	**694 396**
As at 30/06/2006						
Cost	333 776	198 524	262 124	37 337	203 356	1 035 117
Accumulated amortisation	(33 778)	(132 536)	(186 164)	-	-	(352 478)
Net carrying amount	**299 998**	**65 988**	**75 960**	**37 337**	**203 356**	**682 639**
As at 30/06/2007						
Cost	467 373	276 627	271 981	20 653	68 683	1 105 317
Accumulated amortisation	(80 327)	(184 413)	(240 242)	-	-	(504 982)
Net carrying amount	**387 046**	**92 214**	**31 739**	**20 653**	**68 683**	**600 335**

Amortisation of LVL 62 517 (2005/2006: LVL 54 079) is included in the income statement caption Cost of sales; amortisation of LVL 66 777 (2005/2006: LVL 56 115) – in Selling and marketing costs; and amortisation of LVL 25 316 (2005/2006: LVL 31 254) – in Administrative expense.

The acquisition cost of fully depreciated Intangible assets that are still in use at the end of financial year amounted to LVL 187 006 (2005/2006: LVL 123 930).

6. Intangible assets

	Product prototypes EUR	Trademarks and licenses EUR	Software EUR	Prepayments EUR	Intangible assets under development EUR	Total EUR
Year ended 30/06/2006						
Opening net carrying amount	-	57 991	143 582	38 241	748 223	988 037
Additions	-	53 363	61 997	53 126	-	168 486
Reclassified	474 920	38 241	-	(38 241)	(474 920)	-
Result of FX rate changes	-	-	-	-	16 047	16 047
Amortisation charge	(48 061)	(55 703)	(97 498)	-	-	(201 262)
Closing net carrying amount	**426 859**	**93 892**	**108 081**	**53 126**	**289 350**	**971 308**
Year ended 30/06/2007						
Opening net carrying amount	426 859	93 892	108 081	53 126	289 350	971 308
Additions	-	87 391	26 215	-	-	113 606
Reclassified	190 864	23 739	-	(23 739)	(190 864)	-
Amortisation charge	(66 233)	(73 814)	(82 265)	-	-	(222 312)
Disposals	-	-	(6 871)	-	-	(6 871)
Result of FX rate changes	(773)	-	-	-	(758)	(1 531)
Closing net carrying amount	**550 717**	**131 208**	**45 160**	**29 387**	**97 728**	**854 200**
As at 30/06/2005						
Cost	-	190 870	310 971	38 241	748 223	1 288 305
Accumulated amortisation	-	(132 879)	(167 389)	-	-	(300 268) (
Net carrying amount	**-**	**57 991**	**143 582**	**38 241**	**748 223**	**988 037**
As at 30/06/2006						
Cost	474 920	282 474	372 969	53 126	289 350	1 472 839
Accumulated amortisation	(48 061)	(188 582)	(264 888)	-	-	(501 531)
Net carrying amount	**426 859**	**93 892**	**108 081**	**53 126**	**289 350**	**971 308**
As at 30/06/2007						
Cost	665 011	393 604	386 994	29 387	97 728	1 572 724
Accumulated amortisation	(114 294)	(262 396)	(341 834)	-	-	(718 524)
Net carrying amount	**550 717**	**131 208**	**45 160**	**29 387**	**97 728**	**854 200**

Amortisation of EUR 88 953 (2005/2006: EUR 76 948) is included in the income statement caption Cost of sales; amortisation of EUR 95 015 (2005/2006: EUR 79 844) – in Selling and marketing costs; and amortisation of EUR 36 021 (2005/2006: EUR 44 470) – in Administrative expense.

The acquisition cost of fully depreciated Intangible assets that are still in use at the end of financial year amounted to EUR 266 085 (2005/2006: 176 336).

Notes to the consolidated financial statements

7. Impairment testing of intangibles assets under development

On 1 June 2004, the Group's subsidiary SAF Tehnika Sweden AB acquired the business of Viking Microvawe.
From this acquisition the Group has identified intangible assets – 5 product prototypes, which were under development. During the reporting period ended 30 June 2007, two of the prototypes were finished and the Group prepared valuation report for the remaining prototype under development.

The value-in-use of product prototype was determined using cash flow forecasts based on the next five-year budget approved by the Group's management. Cash flows beyond the five-year period are not included in the calculation.

Key assumptions used in the fair value estimates of the product prototypes under development as at 30 June 2006:

Financial year	2007	2008	2009	2010	2011
Gross margin rate %	53%	53%	53%	53%	53%
Growth rate %	100%	850%	111%	90%	42%
Discount rate %	12.64%	12.64%	12.64%	12.64%	12.64%

Key assumptions used in the fair value estimates of the product prototypes under development as at 30 June 2007:

Financial year	2008	2009	2010	2011	2012
Gross margin rate %	53%	53%	53%	53%	53%
Growth rate %	0%	700%	200%	143%	140%
Discount rate %	16.90%	16.90%	16.90%	16.90%	16.90%

The average growth rate calculation was based on the management's forecasts for the market development, industry reports, and assumptions as to the future quantity of products sold and sales price per specific item. The average growth rate is considerably higher than the industry growth rate, since the product prototypes have been recently introduced by the Group, and therefore cash flows from the prototype sale has to grow faster to achieve the projected market share the Group is currently occupying in respect of other products.
The discount rate applied to the cash flow projections is 16.90% (2006/2007: 12.64%), the weighted average cost capital method (WACC) was used on discount rate calculations. WACC has been adjusted to specific market risks the Group is facing.
The management has determined the expected gross margins based on the Group's past performance and its expectation of the market development. The gross margin is the figure achieved over the prior financial year in respect of the sale of analogous products.
The result of the test showed no impairment loss and thereby no changes were made to the carrying amount of the product prototypes.

8. Non-current financial assets

	30/06/2007 LVL	30/06/2006 LVL	30/06/2007 EUR	30/06/2006 EUR
Loan to Latvijas Elektrotehnikas un Elektronikas Rūpniecības Asociācija	44 458	15 579	63 258	22 167
Other loans	590	2 061	839	2 933
Allowance for loan to Latvijas Elektrotehnikas un Elektronikas Rūpniecības Asociācija	(44 458)	-	(63 258)	-
	590	**17 640**	**839**	**25 100**

9. Inventories

	30/06/2007 LVL	30/06/2006 LVL	30/06/2007 EUR	30/06/2006 EUR
Raw materials	1 861 485	2 628 478	2 648 655	3 739 987
Work in progress	3 312 931	1 635 281	4 713 876	2 326 795
Finished goods*:	643 049	488 492	914 976	695 062
- at net realizable value	814 489	724 434	1 158 913	1 030 777
- at cost	643 049	488 492	914 976	695 062
Allowance for slow-moving items	(379 307)	(292 464)	(539 705)	(416 139)
	5 438 158	**4 459 787**	**7 737 802**	**6 345 705**

During the reporting year, additional allowance for slow-moving items of LVL 87 173 (EUR 124 036) (2005/2006: LVL 83 758 (EUR 119 177)) were established and included in cost of sales.
The carrying amount of inventories carried at fair value less cost to sell is LVL 359 187 (EUR 511 077) (2005/2006: LVL 178 932 (EUR 254 597)).
* As at 30 June 2007, finished goods include goods in transit amounting to LVL 39 590 (EUR 56 331) (2005/2006: LVL 44 971 (EUR63 988).

10. Trade receivables

	30/06/2007 LVL	30/06/2006 LVL	30/06/2007 EUR	30/06/2006 EUR
Trade receivables	2 547 553	3 222 506	3 624 842	4 585 213
Allowances for bad and doubtful trade receivables	(191 438)	(219 717)	(272 392)	(312 629)
Trade receivables, net	**2 356 115**	**3 002 789**	**3 352 450**	**4 272 584**

Trade receivables comprise 5 Letters of Credit with original payment term up to 180 days for amount of LVL 1 053 551 (EUR 1 499 068) (2005/2006: LVL 1 880 252 (EUR 2 675 358)). As at 30 June 2007, the fair value of receivables approximated to their carrying amount.
In the reporting year, the decrease of allowances for bad and doubtful trade receivables was included in the income statement caption as administrative expense in amount of LVL 28 279 (EUR 40 237) (2005/2006 – decrease of LVL 66 368 (EUR 94 433)), which was included in Administrative expenses.

11. Other receivables

	30/06/2007 LVL	30/06/2006 LVL	30/06/2007 EUR	30/06/2006 EUR
Government grant*	173 313	-	246 602	-
VAT receivable	43 013	239 494	61 202	340 769
Prepayments to suppliers	15 491	26 928	22 042	38 315
Other receivables	25 777	33 315	36 677	47 403
	257 594	**299 737**	**366 523**	**426 487**

* - Government grants relates to projects on participation in international exhibitions, on increasing employee qualification, and for support in development of new products.

12. Derivatives

	30/06/2007 Assets LVL	30/06/2007 Liabilities LVL	30/06/2006 Assets LVL	30/06/2006 Liabilities LVL	30/06/2007 Assets EUR	30/06/2007 Liabilities EUR	30/06/2006 Assets EUR	30/06/2006 Liabilities EUR
Forward FX contracts	-	-	21 593	-	-	-	30 724	-

Notes to the consolidated financial statements

13. Cash and cash equivalents

	30/06/2007 LVL	30/06/2006 LVL	30/06/2007 EUR	30/06/2006 EUR
Cash at bank	233 290	544 633	331 941	774 943
Short-term bank deposits	66 298	700 000	94 334	996 010
	299 588	**1 244 633**	**426 275**	**1 770 953**

As at 30 June 2007, the annual interest rate on short-term bank deposits (overnight deposits) was 2.73 % for LVL (as at 30 June 2006 on short-term (three months) bank deposits was 4.00%).

14. Share capital

As at 30 June 2007, the registered, issued and paid-up share capital is LVL 2 970 180 (EUR 4 226 185) and consists of 2 970 180 ordinary bearer shares with unlimited voting rights (2005/2006: 2 970 180 shares).

15. Deferred corporate income tax (asset)/liability

	Year ended 30/06/2007 LVL	Year ended 30/06/2006 LVL	Year ended 30/06/2007 EUR	Year ended 30/06/2006 EUR
Deferred tax (asset)/ liability at the beginning of the year	(149 627)	15 082	(212 900)	21 460
Change in deferred tax liability during the reporting year (see Note 24)	25 549	(161 864)	36 353	(230 312)
Changes in foreign exchange rates	(14 602)	(2 845)	(20 777)	(4 048)
Deferred tax (asset)/ liability at the end of the year	**(138 680)**	**(149 627)**	**(197 324)**	**(212 900)**
Unrecognised deferred tax asset				
Unrecognised deferred tax asset at the beginning of the year	-	145 187	-	206 582
Change in unrecognised deferred tax asset during the reporting year (see Note 24)	-	(180 109)	-	(256 272)
Currency translation differences	-	34 922	-	49 690
Unrecognised deferred tax asset at the end of the year	**-**	**-**	**-**	**-**

Deferred tax has been calculated from the following temporary differences between assets and liabilities values for financial accounting and tax purposes

15. Deferred corporate income tax (asset)/liability

	30/06/2007 LVL	30/06/2006 LVL	30/06/2007 EUR	30/06/2006 EUR
Temporary difference on fixed asset depreciation and intangible asset amortisation (to be reversed within 12 months)	-	1 540	-	2 190
Temporary difference on fixed asset depreciation and intangible asset amortisation (to be reversed after more than 12 months)	16 530	38 223	23 520	54 386
Temporary difference on vacation pay reserve (to be reversed within 12 months)	(19 642)	(15 534)	(27 948)	(22 103)
Temporary difference on allowance for slow-moving and obsolete inventories (to be reversed within 12 months)	(43 561)	(35 982)	(61 982)	(51 198)
Temporary difference on tax losses carried forward	(92 007)	(137 874)	(130 914)	(196 177)
Unrecognised deferred tax asset	-	-	-	-
Deferred tax (asset)/ liability, net	**(138 680)**	**(149 627)**	**(197 324)**	**(212 900)**

No offsetting of deferred tax liabilities and assets arising in different jurisdictions has been performed.
Deferred income tax asset for the Group is recognised to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

16. Payables

	30/06/2007 LVL	30/06/2006 LVL	30/06/2007 EUR	30/06/2006 EUR
Trade payables	445 434	1 740 089	633 795	2 475 924
Vacation pay reserve	250 259	211 939	356 086	301 562
Taxes and social insurance contributions	111 079	113 818	158 051	161 948
Other payables	182 869	193 789	260 200	275 737
Prepayments from customers	39 390	9 229	56 047	13 132
	1 029 031	**2 268 864**	**1 464 179**	**3 228 303**

During the reporting period increase in unused vacation pay included in Income Statement amounted to LVL 38 320 (EUR 54 524) (2005/2006: LVL 41 090 (EUR 58 466)).

17. Borrowings

	30/06/2007 LVL	30/06/2006 LVL	30/06/2007 EUR	30/06/2006 EUR
Bank overdrafts	**1 467 416**	**7 456**	**2 087 945**	**10 609**

The fair values of the borrowings approximate to their carrying values. All borrowings are due in less than 6 months. The balance of unused overdrafts as at 30 June 2007 was LVL 2 095 224 (EUR 2 981 235 (30 June 2006: LVL 23 024 (EUR 32 760)). The interest rate for the bank overdraft is one year Libor + 0.85%. The bank overdraft has been secured by a commercial pledge of all the Company's receivables and inventory.

18. Segment information

a) The Group's operations may be divided into two major structural units by product type –CFM (PDH) and CFQ (SDH) product lines. These structural units are used as a basis for providing information about the primary segments of the Group, i.e. business segments. Production, as well as research and development are organised and managed for each product line (CFM and CFQ) separately.

The CFM product line, or plesiochronous digital hierarchy radio equipment, is offered as a digital microwave radio communications system operating over 7, 8, 13, 15, 18, 23, 26, and 38 GHz frequency bands, as well as ensuring wireless point-to-point channels for digitalised voice and data transmission. CFM is available with 4, 8, 16, or 34 Mbps full-duplex data transmission rate. The demand for this product in Asia basically accounts for this market share.

The CFQ product line, or synchronous digital hierarchy radio equipment, is a digital point-to-point radio system providing high capacity (up to 155 Mbps) data transmission over from 7 to 38 GHz frequency bands. The product is basically exported to developed European countries where the demand for high capacity data transmission possibilities is dominating.

Notes to the consolidated financial statements

18. Segment information

	CFQ 2006/07 LVL	CFQ 2005/06 LVL	CFM 2006/07 LVL	CFM 2005/06 LVL	Other 2006/07 LVL	Other 2005/06 LVL	Total 2006/07 LVL	Total 2005/06 LVL
Assets								
Segment assets	1 620 380	754 275	7 804 289	7 333 184	654 773	1 413 178	10 079 442	9 500 637
Undivided assets							803 162	1 600 964
Total assets							10 882 604	11 101 601
Segment liabilities	197 649	209 572	595 208	1 679 482	89 688	306 666	882 545	2 195 720
Undivided liabilities							1 619 021	111 901
Total liabilities							2 501 566	2 307 621
Income	1 428 510	119 652	10 405 813	10 951 239	1 527 771	2 188 818	13 362 094	13 259 709
Segment results	**(451 884)**	**(680 259)**	**3 039 983**	**4 098 246**	**317 628**	**607 195**	**2 905 726**	**4 025 182**
Undivided expense							(2 753 464)	(2 308 441)
Profit from operations							**152 262**	**1 716 741**
Other income							251 816	102 219
Financial expense, net							(174 204)	(155 044)
Profit before taxes							**229 874**	**1 663 916**
Corporate income tax							(70 292)	(61 785)
Profit for the year							**159 582**	**1 602 131**
Other information								
Additions of property plant and equipment and intangible assets	186 474	77 630	742 318	205 065	6 019	691	934 811	283 386
Undivided additions of property plant and equipment and intangible assets							375 481	204 635
Total additions of property plant and equipment and intangible assets							**1 310 292**	**488 021**
Depreciation and amortization	262 198	147 073	316 886	344 240	3 542	3 157	582 626	494 470
Undivided depreciation and amortization							202 462	201 133
Total depreciation and amortization							**785 088**	**695 603**

18. Segment information

	CFQ 2006/07 EUR	CFQ 2005/06 EUR	CFM 2006/07 EUR	CFM 2005/06 EUR	Other 2006/07 EUR	Other 2005/06 EUR	Total 2006/07 EUR	Total 2005/06 EUR
Assets								
Segment assets	2 305 593	1 073 237	11 104 503	10 434 181	931 658	2 010 770	14 341 754	13 518 189
Undivided assets							1 142 796	2 277 967
Total assets							**15 484 550**	**15 796 155**
Segment liabilities	281 229	298 194	846 905	2 389 688	127 615	436 346	1 255 749	3 124 228
Undivided liabilities							2 303 659	159 221
Total liabilities							3 559 408	3 283 449
Income	2 032 587	170 249	14 806 138	15 582 209	2 173 822	3 114 408	19 012 547	18 866 866
Segment results	**(642 973)**	**(967 921)**	**4 325 506**	**5 831 279**	**451 943**	**863 960**	**4 134 476**	**5 727 318**
Undivided expense							(3 917 826)	(3 284 616)
Profit from operations							**216 650**	**2 442 702**
Other income							358 302	145 445
Financial expense, net							(247 870)	(220 608)
Profit before taxes							**327 082**	**2 367 539**
Corporate income tax							(100 017)	(87 912)
Profit for the year							**227 065**	**2 279 627**
Other information								
Additions of property plant and equipment and intangible assets	265 329	110 458	1 056 223	291 781	8 564	983	1 330 116	403 222
Undivided additions of property plant and equipment and intangible assets							534 261	291 169
Total additions of property plant and equipment and intangible assets							**1 864 377**	**694 391**
Depreciation and amortization	373 074	209 266	450 888	489 809	5 040	4 492	829 002	703 567
Undivided depreciation and amortization							288 078	286 186
Total depreciation and amortization							**1 117 080**	**989 753**

b) This note provides information about division of the Group's turnover and assets by geographical segments (customer location).

	Net sales 2006/07 LVL	Net sales 2005/06 LVL	Assets 30/06/2007 LVL	Assets 30/06/2006 LVL	Net sales 2006/07 EUR	Net sales 2005/06 EUR	Assets 30/06/2007 EUR	Assets 30/06/2006 EUR
Asia	3 515 948	4 181 024	841 871	1 932 746	5 002 743	5 949 061	1 197 875	2 750 050
America	1 514 860	2 283 068	381 624	82 778	2 155 452	3 248 513	543 002	117 782
Africa	783 896	475 385	59 354	117 770	1 115 384	676 412	84 453	167 572
Europe	4 086 555	3 696 859	270 504	510 629	5 814 645	5 260 156	384 893	726 560
CIS	2 780 634	1 962 377	450 320	412 304	3 956 486	2 792 211	640 748	586 656
Middle East	680 201	660 996	352 442	166 279	967 837	940 513	501 479	236 593
	13 362 094	13 259 709	2 356 115	3 222 506	19 012 547	18 866 866	3 352 450	4 585 213
Unallocated assets	-	-	8 526 489	7 879 095	-	-	12 132 100	11 210 942
	13 362 094	13 259 709	10 882 604	11 101 601	19 012 547	18 866 866	15 484 550	15 796 155

Notes to the consolidated financial statements

19. Cost of sales

	Year ended 30/06/2007 LVL	Year ended 30/06/2006 LVL	Year ended 30/06/2007 EUR	Year ended 30/06/2006 EUR
Purchases of components and subcontractors services	7 335 454	6 961 022	10 437 411	9 904 642
Salary expenses (including accruals for vacation pay)	1 526 781	1 071 383	2 172 414	1 524 441
Depreciation and amortization (see Note 5-6)	582 626	491 313	829 002	699 075
Social insurance (including accruals for vacation pay)	398 360	277 602	566 815	394 992
Rent of premises	113 087	95 997	160 908	136 591
Inventory impairment	87 173	83 758	124 036	119 177
Public utilities costs	83 430	37 608	118 710	53 511
Low value inventory	22 939	50 371	32 639	71 671
Transportation expenses	22 201	20 304	31 589	28 890
Other production costs	284 317	145 169	404 547	206 558
	10 456 368	**9 234 527**	**14 878 071**	**13 139 548**

Research and development related expenses of LVL 1 633 406 (EUR 2 324 127) (2005/2006: LVL 1 333 382 (EUR 1 897 232)) are included in income statement caption cost of sales.

20. Selling and marketing costs

	Year ended 30/06/2007 LVL	Year ended 30/06/2006 LVL	Year ended 30/06/2007 EUR	Year ended 30/06/2006 EUR
Advertising and marketing costs	623 495	612 804	887 153	871 942
Wages and salaries (incl. vacation pay reserve)	517 436	298 235	736 245	424 350
Business trips	260 749	184 552	371 012	262 594
Delivery costs	117 050	106 363	166 547	151 341
Depreciation and amortisation (see Note 5-6)	116 373	109 489	165 584	155 789
Social insurance contributions (incl. vacation pay reserve)	114 521	68 706	162 949	97 760
Other selling and distribution costs	75 856	78 529	107 934	111 736
	1 825 480	**1 458 678**	**2 597 424**	**2 075 512**

21. Administrative expense

	Year ended 30/06/2007 LVL	Year ended 30/06/2006 LVL	Year ended 30/06/2007 EUR	Year ended 30/06/2006 EUR
Wages and salaries (incl. vacation pay reserve)	235 033	243 841	334 422	346 954
Depreciation and amortisation (see Note 5-6)	84 456	93 597	120 170	133 177
IT services	50 944	90 485	72 487	128 749
Social insurance contributions (incl. vacation pay reserve)	50 357	58 422	71 652	83 127
Representation expense	50 088	33 058	71 269	47 037
Bank charges	44 851	36 671	63 817	52 178
Allowance for loan to LETERA	44 458	-	63 258	-
Sponsorship	36 870	53 488	52 461	76 107
Office maintenance costs	15 380	23 726	21 884	33 759
Business trips	14 109	16 355	20 075	23 271
Communications expense	9 889	31 553	14 071	44 896
Allowance for bad and doubtful receivables	(28 279)	(66 368)	(40 237)	(94 433)
Other administration expense	319 828	234 935	455 073	334 282
	927 984	**849 763**	**1 320 402**	**1 209 104**

22. Other income

	Year ended 30/06/2007 LVL	Year ended 30/06/2006 LVL	Year ended 30/06/2007 EUR	Year ended 30/06/2006 EUR
Government grant*	207 783	100 958	295 649	143 650
Other income	44 033	1 261	62 653	1 795
	251 816	**102 219**	**358 302**	**145 445**

* The Group has received LVL 39 589 (EUR 56 330) (2005/2006 – LVL 100 958 (EUR 143 650)) of government grant. The residual value LVL 173 313 (EUR 246 602) is receivable (see Note 11) and LVL 5119 (EUR 7284) deferred income.

23. Financial expense

	Year ended 30/06/2007 LVL	Year ended 30/06/2006 LVL	Year ended 30/06/2007 EUR	Year ended 30/06/2006 EUR
Interest expense	92 185	2 300	131 167	3 273
Loss from changes in fair value of derivatives	21 593	-	30 724	-
Currency exchange loss, net	66 975	202 593	95 297	288 264
	180 753	**204 893**	**257 188**	**291 537**

24. Corporate income tax

	Year ended 30/06/2007 LVL	Year ended 30/06/2006 LVL	Year ended 30/06/2007 EUR	Year ended 30/06/2006 EUR
Change in deferred tax asset (see Note 15)	25 549	(161 864)	63 664	(230 312)
Corporate income tax charge for the current reporting year	44 743	223 649	36 353	318 224
	70 292	**61 785**	**100 017**	**87 912**

Notes to the consolidated financial statements

24. Corporate income tax

Corporate income tax differs from the theoretically calculated tax amount that would arise applying the statutory 15% rate to the Group's profit before taxation:

	Year ended 30/06/2007 LVL	Year ended 30/06/2006 LVL	Year ended 30/06/2007 EUR	Year ended 30/06/2006 EUR
Profit before taxation	**229 874**	**1 663 916**	**327 082**	**2 367 539**
Tax rate	15%	15%	15%	15%
Theoretically calculated tax	34 481	249 587	49 062	355 130
Expenses not deductible for tax purposes	26 178	18 348	37 249	26 107
Effect of different tax rates	20 819	19 424	29 622	27 638
Tax relief on donations	(11 186)	(45 465)	(15 916)	(64 691)
Increase in unrecognized deferred tax asset	-	-	-	-
Utilization of previously unrecognized deferred tax asset	-	(180 109)	-	(256 272)
Tax charge	**70 292**	**61 785**	**100 017**	**87 912**

The State Revenue Service may inspect the Company's books and records for the last 2.5 years (starting from 1 January 2005) and impose additional tax charges with penalty interest and penalties. The Group's management is not aware of any circumstances, which may give rise to a potential material liability in this respect. (The State Revenue Service had not performed all-inclusive tax audit at the balance sheet date).

25. Earnings per share

Basic earnings per share are calculated by dividing the profit by the weighted average number of shares during the year.

	Year ended 30/06/2007 LVL	Year ended 30/06/2006 LVL	Year ended 30/06/2007 EUR	Year ended 30/06/2006 EUR
Profit for the reporting year (a)	159 582	1 602 131	227 065	2 279 627
Ordinary shares as at 1 July (b)	2 970 180	2 970 180	2 970 180	2 970 180
Basic earnings per share for the reporting year (a/b), LVL	**0.05**	**0.54**	**0.08**	**0.77**

26. Dividends per share

	Year ended 30/06/2007 LVL	Year ended 30/06/2006 LVL	Year ended 30/06/2007 EUR	Year ended 30/06/2006 EUR
Dividends paid	594 036	297 018	845 237	422 619
Number of shares upon payment	2 970 180	2 970 180	2 970 180	2 970 180
Dividends per share for the reporting year (a/b), LVL	**0.20**	**0.10**	**0.28**	**0.14**

27. Related party transactions

Remuneration to the Board and the Council	Year ended 30/06/2007 LVL	Year ended 30/06/2006 LVL	Year ended 30/06/2007 EUR	Year ended 30/06/2006 EUR
Remuneration to the Board Members				
-salaries*	130 158	101 485	185 198	144 400
-social insurance contributions*	18 799	16 797	26 749	23 900
Remuneration to the Council Members				
-salaries*	86 701	75 092	123 364	106 846
-social insurance contributions*	14 882	17 235	21 175	24 524
Total	**250 540**	**210 609**	**356 486**	**299 670**

* Salaries and social insurance contributions include accruals for bonuses for the reporting year results.

The chairman of the Board is shareholder of CityCredit SIA, FMS SIA and Namīpašumu pārvalde SIA as well as member of the Board in Latvijas Elektrotehnikas un Elektronikas Rūpniecības Asociācija . SAF Tehnika is a member of Latvijas Elektrotehnikas un Elektronikas Rūpniecības Asociācija and Latvijas Telekomunikāciju asociācija. The council member Janis Bergs is chairman of the Board and shareholder of FMS SIA.The council member Ivars Šenbergs is Chairman of the Board and shareholder of Namīpašumu pārvalde SIA.

During the period from 1 July 2006 until 30 June 2007 the Company has paid to Latvijas Telekomunikāciju asociācija LVL 1 000 (EUR 1 423) and to Latvijas Elektrotehnikas Rūpniecības Asociācija LVL 2 125 (EUR 3 024) as membership fee. In the same period SAF Tehnika A/S provided service to Latvijas Elektrotehnikas un Elektronikas Rūpniecības Asociācija for the total amount of LVL 1836 (EUR 2 612).

During the period 1 July 2006 until 30 June 2007, the Company has lent an amount of EUR 34,800 and LVL 20 000 to the organization Latvijas Elektrotehnikas un Elektronikas Rūpniecības Asociācija, according to the long-term borrowing agreement. The maturity of the loan is 31.12.2016. The loan is interest-free.

During the period from 1 July 2006 until 30 June 2007, the Company has received services from CityCredit SIA (related party from 17 March 2006) in the amount of LVL 255 (EUR 363).

During the period from 1 July 2006 until 30 June 2007, the Company has received services from FMS SIA (related party from 30 June 2006) in the amount of LVL 28 916 (EUR 41 144). Besides Company provided services to FMS SIA for the total amount of LVL 23 600 (EUR 33 580) and sold goods for the total amount of LVL 170 (EUR 242).

During the period from 1 July 2006 until 30 June 2007 the Company sold goods to Namīpašumu pārvalde for the total amount of LVL 474 (EUR 674).

28. Personnel expense

	Year ended 30/06/2007 LVL	Year ended 30/06/2006 LVL	Year ended 30/06/2007 EUR	Year ended 30/06/2006 EUR
Wages and salaries*	2 279 250	1 613 458	3 243 081	2 295 744
Social insurance contributions**	563 238	404 730	801 415	575 879
Contributions to pension funds	94 276	85 489	134 143	121 640
Total	**2 936 764**	**2 103 677**	**4 178 639**	**2 993 263**

* Salaries and social insurance contributions include accruals for bonuses for the reporting year results.
** Contributions to pension funds are made on behalf of the employees of SAF Sweden Tehnika AB.

29. Average number of employees of the Group

	Year ended 30/06/2007	Year ended 30/06/2006
Average number of personnel employed by the group during the reporting year:	182	136

The average number of employees includes 14 employees hired for subsidiary SAF Tehnika Sweden AB.

Notes to the consolidated financial statements

30. Operating lease

Lease agreement No. S-116/02, dated 10 December 2002, was signed with Dambis A/S. According to the agreement, the lessor commissions and SAF Tehnika A/S accepts premises in the total area of 5 851 m2 for consideration. The premises are locates at Ganību dambis 24a.
The agreement expires on 1 March 2016.

According to the signed agreement, the Group has the following lease payment commitments as at 30 June 2007.

	LVL	EUR
1 year	99 736	141 912
2 – 5 years	404 618	575 720
More than 5 years	370 900	527 742
	875 254	1 245 374

31. Contingent liabilities

The Group has contingent liabilities in respect of the bank arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities. The Group has given guarantees in the ordinary course of business amounting to LVL 173 777 (EUR 247 262) (2005/2006: LVL 186 427 (EUR 265 262) to third parties.

As collateral for above guarantees, the Group has pledged one debtor receivables for a maximum amount of LVL 430 300 (EUR 612 262).

32. Going concern

The Group closed the reporting year with negative operating cash flow of LVL 579 thousand (EUR 824 thousand) and net profit of LVL 159 thousand (EUR 226 thousand) that is by 1 442 thousand (EUR 2 052 thousand) lower than in previous reporting period. The main reason for the decreased profitability was a delay of several large sales orders.

The Group's management believes that the existing situation is temporary and takes measures to ensure profitability at the previous level. The group has implemented cost-cutting plan and has decreased salaries to personnel by 15 – 30%. Moreover, Group has started the process of reorienting its sales strategy from participation only in large tenders to building a network of smaller clients that make regular purchases, thus, optimising cash flow.

Current assets of the Group are higher than current liabilities. Although all borrowings are due in less than 6 month, they can be covered by debtor balances that mainly have payment terms within 6 month period. Currently there is also no indication that Group will not be able to prolong overdraft agreements.

33. Events after balance sheet date

As of the last day of the reporting year until the date of signing these financial statements there have been no events which would have any material impact on the financial position of the Group as at 30 June 2007 or its financial performance and cash flows for the year then ended.